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**Statement of
The Honorable Gwendolyn Sykes
Chief Financial Officer
National Aeronautics and Space Administration**

before the

**Subcommittee on Space and Aeronautics
Committee on Science
and the
Subcommittee on Government Management, Finance and Accountability
Committee on Government Reform**

House of Representatives

Chairman Calvert, Chairman Platts and Members of the Subcommittees, I am pleased to be here this morning to give you an update on the progress of NASA's efforts to improve our financial management performance. Since I last reported to the Subcommittee on Government Efficiency and Financial Management on May 19, 2004, NASA has taken many steps toward improved financial performance, and I am proud to be able to speak with you today about those steps, and the results we have achieved in moving the Agency forward in financial management.

Over the past 17 months, much has changed at NASA. As you are aware, NASA has recently embarked on its new Vision for Space Exploration, leading us to re-evaluate operational and planned missions in light of our new goals. We, in the Office of the Chief Financial Officer (OCFO), are working in close partnership with the NASA Mission Directorates, programs and projects to support these efforts.

The confirmation of Dr. Michael Griffin as NASA Administrator has also helped to emphasize the importance of effective financial management across all parts of the Agency. In response to guidance from the Administrator upon his confirmation, Patrick Ciganer and I convened a Senior Advisory Group consisting of leaders from the Federal Government including the Under Secretary of Education and the Controller of the Office of Management and Budget (OMB). We worked closely with the advisory group to review the current financial management improvement plan to ensure we had the right strategy, body of work, and resources to address the challenges that face NASA. The group's insight proved so effective that we have instituted monthly meetings, which we use to gain continued insight and guidance as we move forward on our path towards more effective financial management operations at NASA.

At that group's suggestion, and under the direct authority of the Administrator, we have also created a Financial Integration Team, or FIT, in recognition that many NASA organizations outside of the OCFO have responsibility for, and contribute to, our Agency's financial health. Their full support is essential to improving NASA's financial management and the FIT has been

instrumental in coordinating Agency-wide resources to address and resolve the financial challenges that you have asked me to report on today.

In my 2004 testimony, I described several of the challenges facing NASA in the area of financial management. Additional challenges were highlighted in the audit of our financial statements for that year. I would like to provide an update to you today on the progress we have made and the challenges we continue to address.

Fund Balance With Treasury

NASA's September 30, 2003, Fund Balance with Treasury (FBWT) contained a \$1.743 billion discrepancy between the U.S. Treasury (Treasury) balance and the amount that was reported from the NASA Integrated Enterprise Management Program Core Financial System. Since that time, NASA has taken several corrective actions to significantly reduce our differences with Treasury's balances and improve internal controls over data integrity.

In FY 2003 and FY 2004 a material weakness was reported for differences in NASA's FBWT account balance. Differences were due in large part to the consolidation of imbalances from ten disparate accounting systems and data integrity issues associated with the conversion process and implementation of the Core Financial System.

Furthermore, the FY 2004 financial statement audit report indicated that NASA lacked formalized procedures to analyze accounting data. It also found that a strong oversight function was needed to ensure that periodic analyses and reconciliations are completed to detect and resolve errors and irregularities in a timely manner.

To address these findings, NASA developed and implemented standard monthly reconciliation and correction policies and procedures for its FBWT accounts. These have been formally published in NASA's Financial Management Requirements. NASA has also implemented monthly Headquarters reviews of those reconciliations to ensure compliance with NASA policy and to increase oversight of the Agency's FBWT and any associated differences.

Through these efforts, NASA has reduced its differences in the amounts reported by Treasury and NASA's books of record for FBWT by over 97%. The September 2005, year-end FBWT difference was \$46.5 million, versus the \$1.743 billion difference reported at year-end of FY 2003. Of this \$46.5 million FBWT difference, \$35.8 million is due to September's increase in transactions with other intergovernmental entities. The remaining \$10.7 million has been reconciled.

NASA is implementing an agency-wide automated tool to assist all Centers in the reconciliation of FBWT. This tool will provide increased speed and accuracy in identifying and reconciling differences with Treasury. It will also increase NASA's visibility at Headquarters into the actions taken by NASA Centers to identify and correct differences with Treasury.

FY 2005 Year-End Close

Contributing to our control weaknesses last year were several software related issues that limited our ability to provide the auditors with sufficient transaction audit trails and with credible balances to support key accounts. While we were able to provide the information to the auditors

using systems and processes outside of our Core Financial System, our inability to provide them through the system resulted in a negative audit finding.

Over the past year, we have made progress toward resolving the underlying issues contributing to those weaknesses. The result of our improvements is that most of our financial statements are generated directly from our Core Financial system, using the transactional data mapped detail by detail to financial statements.

This year's publication of the NASA Financial Management Procedures, a companion set of guidance to NASA's Financial Management Requirements (FMR), provided guidelines that improved the consistency, effectiveness and accuracy of NASA's year-end closing process. NASA also increased its testing of the financial statement preparation process and implemented monthly and quarterly financial statement analysis accompanied by greater supporting detail and enhanced controls.

We will continue to monitor our financial statement procedures to seek opportunities for streamlining our process.

Environmental Liabilities

For FY 2004, NASA's financial statement auditors identified weaknesses in NASA's estimation of its environmental liabilities (e.g. asbestos removal, groundwater contamination clean-up, etc.). Key issues included insufficient definition of roles and responsibilities among all parties involved in estimating these liabilities, and insufficient policies, procedures and training in the estimation process.

The resolution of this weakness requires close coordination and cooperation across several NASA organizations. OCFO and NASA's Environmental Management Division (EMD) have partnered to coordinate policies, processes and controls for estimating NASA's environmental liabilities. We have developed and documented environmental liabilities estimating procedures and distributed them to all Centers. These procedures will be enhanced in FY 2006 to ensure greater consistency and reliability in NASA's estimates. In addition, the partnership will establish a robust quality assurance process.

In conjunction with EMD, OCFO has also developed and conducted policy and guidance training for estimating environmental liabilities. Beginning in FY 2006, OCFO will enhance training and include the Center CFO staff as an integral part of the estimate preparation and review process.

While we have accomplished a great deal toward addressing this reportable condition, it will take time to realize results. Therefore, these results are unlikely to be reflected in NASA's 2005 financial audit.

Property, Plant and Equipment

The last major finding from NASA's financial statement audits concerns weaknesses in NASA's ability to recognize and account for its property, plant, and equipment (PP&E), and in particular its "theme assets" or, the products, such as the Space Shuttle and Hubble Space Telescope, that are developed in direct support of NASA's mission. NASA's FY 2004 audit report recommended that NASA review its accounting policies governing how the Agency determines the value of

these products as they are being developed. NASA auditors also cited the need for improved processes and controls for tracking parts and components.

In response, NASA reviewed and evaluated its capitalization policy for these products to determine if the policy provided useful, meaningful and timely financial information to decision-makers and stakeholders as suggested by the objectives of Federal financial reporting. Based on that evaluation, NASA has revised its capitalization policy and is currently formulating supporting procedures for implementing the approach.

Beyond accounting treatment, resolving PP&E valuation and controls weaknesses requires the integration and improvement of overall acquisition, development, and disposal processes. The FIT established a cross-functional PP&E team comprised of members representing NASA's Institutional Management, Procurement, and Financial Management functions. The team is conducting a comprehensive review of NASA's product acquisition, development, disposal, and accounting processes and controls and developing recommendations for improving them. These recommendations will be evaluated for implementation over the course of the next several months.

While taking steps to improve its internal processes, NASA has also taken steps to improve contractor compliance with NASA's PP&E policies. Contractors currently hold over \$9 billion worth of NASA PP&E, representing a significant and material portion of our balance sheet. We are working directly with our contractors to ensure they have proper training and controls to implement policy. We have also expanded our contract with the Defense Contract Audit Agency to increase our oversight of contractor compliance.

Improving these processes will not only enable NASA to improve its ability to accurately control and value assets but will also help pave the way for the successful implementation of NASA's Integrated Asset Management (IAM) module. Ultimately, IAM, an integral part of the Agency's Integrated Enterprise Management (IEM) system will integrate, automate and strengthen control of NASA's PP&E processes. The recent re-phasing of IAM's schedule is based on priority being given to the SAP Version Upgrade in October 2006, and the introduction of NASA's new budget structure. Given the changes to the schedule, the PP&E recommendations will include internal controls designed to address weaknesses so that PP&E processes are improved before IAM is implemented.

Internal Controls

OMB recently released enhanced guidance for improving internal controls over financial reporting and documentation in OMB Circular A-123, "Management's Responsibility for Internal Control." In August 2005, we provided NASA's high-level plan for implementing the new requirements to OMB. Our goal is to satisfy the requirement by applying the guidance to four key accounts in FY 2006: FBWT, Materials and Supplies, PP&E, and Environmental Liabilities. We have crafted a plan that should move us toward successful compliance with the new requirement.

To set the stage for work that will be done this fiscal year, agency-wide financial management internal control assistance visits, risk-assessments and self-assessments were conducted at all ten NASA Centers in FY 2005. Those activities helped refocus and reinvigorated interest in financial internal controls across the Agency and provided information that will serve as a baseline for the upcoming FY 2006 internal controls assessments.

Overall Improvements

To ensure that these improvements are sustained, OCFO has also taken steps to enhance our workforce and improve our internal processes. Over the past several years, OCFO staffing levels have been inadequate to successfully address our challenges and operate on a going forward basis. We simply have not had the staff, in terms of both headcount and skill set mix, to contend with the many changes we have faced. New responsibilities, new systems, new processes, new Federal requirements and changing expectations from our customers all require a flexible, well-trained and appropriately staffed financial management organization.

To address these issues, the NASA Administrator has made a personal commitment towards improving our posture, including approving staff increases in FY 2005. In the past month, we have begun to increase our staff in the budget and accounting functions. In addition, we have undertaken a series of workforce development initiatives aimed at enhancing and improving the skills of our staff. One of our first priorities has been to ensure that we are providing staff with the skills and tools they need to respond to changes in policy, process and procedures related to the implementation of the Core Financial System. Prior to the implementation of Core Financial, the NASA community participated in extensive preparatory training. We are now supplementing that training with refresher courses that incorporate our lessons learned.

Within OCFO, we are also establishing a training curriculum to help ensure that the financial community is equipped with the skills and knowledge required to fulfill current job responsibilities while developing new analytical skills needed to fulfill new roles. Recognizing our obligation to provide the NASA community with the tools and knowledge need to make sound financial and resource decisions, OCFO has also developed and piloted a course entitled "Financial Management for Non-Financial Managers." We are currently exploring ways to roll-out the course to the broader NASA community in 2006.

NASA has also lacked consistent policies and processes. Through NASA's Financial Management Requirements (FMR), we have established a single set of policies for NASA financial management. All Centers, all programs, all projects and all institutional functions are required to adopt and comply with these policies. The implementation of the FMR is helping us to both increase the consistency in philosophies and approaches to the treatment of financial management across NASA and to generate constructive debate about the ways in which we have chosen to move forward. As a result, new processes have been developed and implemented across the Agency that incorporate best practices from our Centers and programs.

In summary, NASA is making steady progress in addressing the Agency's financial management challenges. I am confident that we are well on our way toward enhancing financial management at NASA, one step at a time. Even though NASA may not receive a clean opinion on our statements in 2005, the Agency has made headway and we will continue to push forward in meeting this challenge.

I reiterate my full commitment to improving NASA's financial management performance, to ensuring that all stakeholders have a clear and accurate assessment of how NASA's resources are being used, and to providing decision makers with access to accurate, timely and reliable data. We are making steady, measurable progress toward those goals.

Mr. Chairmen, I would be pleased to respond to questions.